November | December 2008 Number 11

NCUA News National Credit Union Administration

Fryzel announces HARP mortgage relief program to assist members

NCUA Chairman Michael E. Fryzel unveiled a new initiative in November aimed at assisting credit union members who are experiencing mortgage-related financial difficulties to preserve their homeownership.

The Credit Union Homeowners Affordability Relief Program (CU HARP) would enable NCUA, through the Central Liquidity Facility (CLF), to work with credit unions and their members in temporarily lowering monthly mortgage payments. The CLF would provide credit unions with funds borrowed from the Department of Treasury at lower rates than otherwise available through private sources. In turn, credit unions would pass the entire rate reduction to struggling low- and moderate-income borrowers. The credit union, in exchange for the reduced likelihood of borrower default on the mortgage, would also match the rate break, doubling the benefit to struggling homeowners.

"My principal reason for advancing CU HARP is simple: The consumer must not be left out of broader government efforts to mitigate the housing and credit market dislocations," stated Chairman Fryzel. "CU HARP is an effort to foster a solution whereby NCUA and credit unions work together to assist distressed borrowers. It represents what I believe to be an innovative and practical use of federal homeowner assistance that will also benefit credit unions and the market. At the same time, the standards and requirements for CU HARP participation will be stringent and will enable NCUA to be responsible stewards of any public funds used. CU HARP will be a 'win-win' for all involved."

Borrowers participating in CU HARP would be subject to eligibility standards, including income level, default or danger of default, and required occupancy.

The credit union would have the option of setting the period of rate break (3 to 5 years) and would be able to create a 40-year maturity and/or reduce the principal balance to increase mortgage affordability.

CU HARP will be administered at no cost to taxpayers. CLF loans are made to credit unions on a fully-secured basis, and all advances received by the CLF will be repaid to the Federal Financing Bank (an arm of Treasury) with interest. The program will receive initial funding of $2 billion.

In addition to NCUA Board approval, CU HARP must also gain approval from by the Treasury Department and the Board of Governors of the Federal Reserve before NCUA can initiate the program.

Credit unions post asset, savings, loan and member growth

While federally insured credit unions remain sound, the industry's financial results reflect some repercussions of the current economic turmoil. Confidence in the credit union system has resulted in positive asset, loan and share growth, as well as a membership increase to 88.5 million according to September 30, 2008, Call Report data submitted by the nation's 7,904 federally insured credit unions.

While many major balance sheet categories showed positive growth in the first nine months of 2008, the return on average assets declined. Net income decreased 15.7 percent, based primary on a 71.9 percent increase in the provision for loan & lease losses account as credit unions reserve for possible losses. Reflecting current stress in the financial industry, delinquency ratios increased in all loan types.

"Credit unions' continued high level of net worth will help them weather today's turbulent economy; however, credit unions

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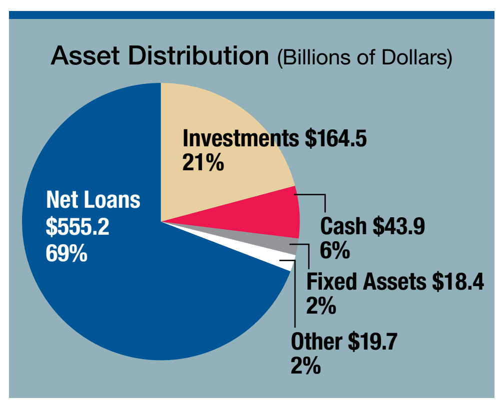

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are not immune to financial stress, as noted in the delinquency increase in categories such as credit cards and mortgage loans," said NCUA Chairman Michael E. Fryzel. "NCUA is keeping a watchful eye on these adverse trends as part of a broader commitment to maintaining a safe and sound credit union industry."

Details of actual growth in major balance sheet categories and membership in federally insured credit unions from December 31, 2007, to September 30, 2008, follows:

- Assets increased 6.4 percent to $801.7 billion from $753.4 billion;
- Loans increased 6.3 percent to $560.0 billion from $526.9 billion;
- Investments increased 15.5 percent to $164.5 billion from $142.5 billion;
- Shares increased 5.8 percent to $668.9 billion from $632.4 billion;
- Net worth increased 5.21 percent to $89.5 billion from $86.2 billion; and
- Membership increased 2.0 percent to 88.5 million members.

The loan to share ratio increased to 83.73 percent. First mortgage real estate loans and lines of credit expanded 13.6 percent, used automobile loans grew 5.6 percent, and unsecured credit card debt increased 4.5 percent. New automobile loans continued to fall, marking a 5.4 percent decline thus far in 2008.

Regular shares increased 6.3 percent while money market shares increased 14.4 percent, share certificates increased 1.4 percent and IRA/KEOGH accounts increased 8.4 percent during the first nine months of 2008.

With loan growth slightly outpacing savings in 2008, the loan-to-share ratio has increased to 83.7 percent from 83.3 percent at year-end 2007. The loan delinquency ratio increased 20 basis points, up from .93 to 1.13 percent, and the net charge-off ratio increased from 0.51 to 0.75 percent during

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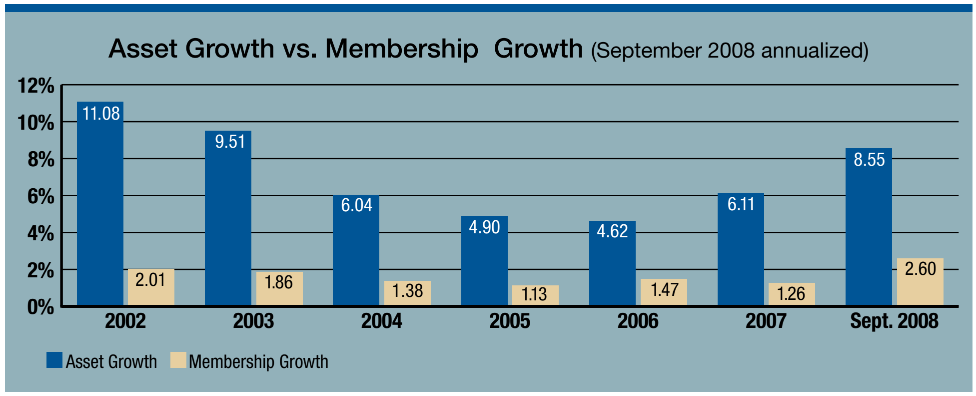

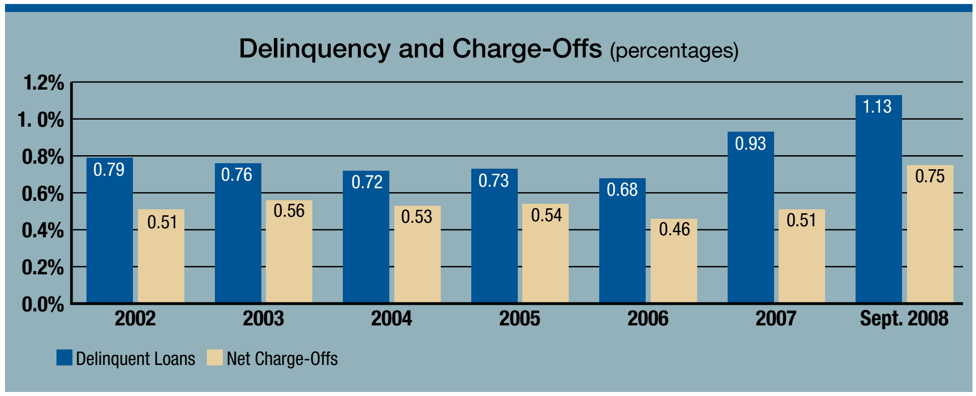

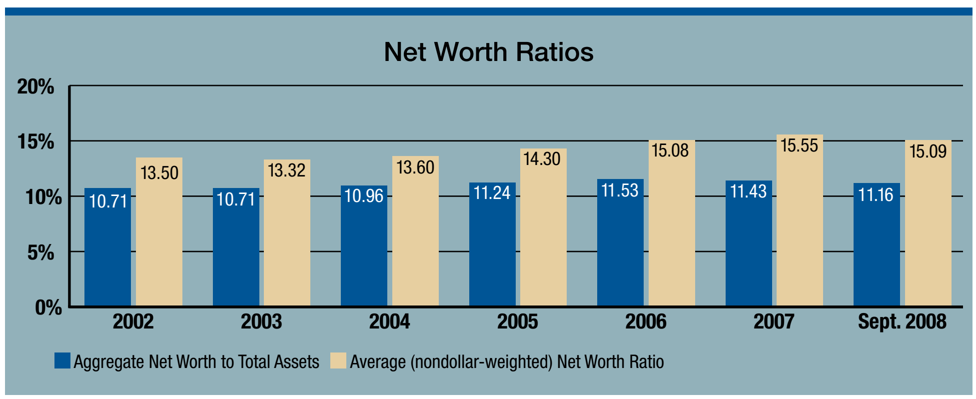

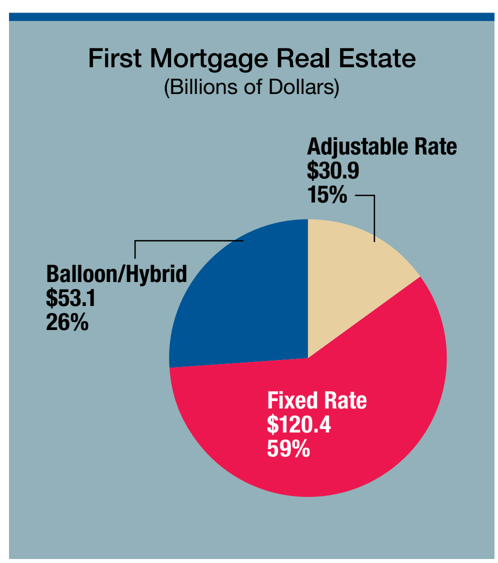

NCUA News

National Credit Union Administration

NCUA News is published by the National Credit Union Administration, the federal agency which supervises and insures most credit unions.

Michael E. Fryzel, *Chairman*
Rodney E. Hood, *Vice Chairman*
Christiane Gigi Hyland, *Board Member*

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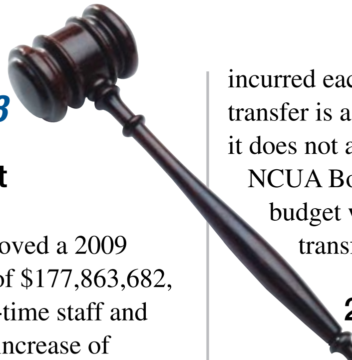
Board actions November 20, 2008



NCUA 2009 budget approved

The NCUA Board approved a 2009 agency operating budget of $177,863,682, which includes 1,016 full-time staff and represents a 12.1 percent increase of $19,2323,235 over the 2008 budget. The increase accommodates inflation and program modifications to address the turbulent economic environment.

NCUA operations are financed by an operating fee paid by federal credit unions and an overhead transfer from the National Credit Union Share Insurance Fund.

The 2009 budget increase contains NCUA program changes that include introduction of a 12-month examination cycle which will add 56 positions—50 full-time examiner positions, 5 supervisory examiners and 1 human resource specialist. In addition, a thoroughly trained national examination team will be created to address challenging cases that pose the most risk to the National Credit Union Share Insurance Fund.

The categories with major budget increases in 2009 consist of employee pay and benefits, with a projected 9.91 percent increase; travel, with a projected 34.13 percent increase; and contracted services, with a projected 29.20 percent increase.

Details of the 2009/2010 budget are available online at http://www.ncua.gov/NCUABoard/draftboardactions/index.htm.

NCUSIF overhead transfer rate set at 53.8 percent

The NCUA Board established a National Credit Union Share Insurance Fund (NCUSIF) overhead transfer rate of 53.8 percent to cover the expenses associated with insurance-related functions of NCUA's operations for 2009. The overhead transfer rate increased from 52.0 percent for 2008 due to additional time being spent on insurance-related functions.

The Federal Credit Union Act authorizes NCUA to transfer funds from the NCUSIF for administrative and other expenses related to federal share insurance. The transfer is applied to actual expenses incurred each month. While the overhead transfer is a funding source for NCUA, it does not affect the budget amount. The NCUA Board approves the agency budget without regard to the overhead transfer rate.

2009 operating fee assessment adopted

The NCUA Board approved an operating fee structure and assessment scale for 2009 that includes a 6.5 percent increase in asset dividing points for the federal credit union operating fee scale, based on projected 2008 federal credit union asset growth.

The 2009 federal credit union operating fee adjustment increase is 6.77 percent, except for first and second asset tier credit unions, which pay no fee or a flat fee of $100.

NCUA will issue a letter to federal credit unions regarding the operating fee scale in January 2009, invoices will be distributed in March, and the operating fee is due April 15, 2009.

Operating fee scale examples follow:

- $1 million in assets = fee of $238.07, an increase of $15.10 or 6.77 percent
- $10 million in assets = fee of $2,380.70, an increase of $151 or 6.77 percent
- $100 million in assets = fee of $23,807, an increase of $1,510 or 6.77 percent

12-month examination program adopted

Taking a proactive approach, the NCUA Board voted to revise the NCUA risk-based examination schedule to a 12-month program, allocate $6.8 million to initiate the program, and provide 50 additional examiners, 45 to be added in 2009, to help execute the program.

Current adverse economic conditions and distress in the nation's financial structure places credit unions at greater risk. Indications are next year may be more difficult for financial institutions than 2008. To effectively deal with potential challenges, a stepped-up examination schedule will provide NCUA with more timely, relevant qualitative and quantitative information to recognize and respond to sudden changes in credit union performance.

FOM rule modified

The NCUA Board implemented modifications to its Chartering and Field of Membership Manual (IRPS 08-2) to update and clarify the process for approving credit union service to underserved areas.

The final rule includes the following modifications:

- Clarifies that an "underserved area" must qualify as a local community.
- Makes explicit the process for applying the economic "distress" criteria that determine whether a proposed area's geographic units are sufficiently "distressed" to qualify it as an "investment area."
- Updates documentation and clarifies scope requirements for demonstrating that a proposed area has "significant unmet needs" for loans and financial services.
- Utilizes NCUA-supplied data on the location of depository institution facilities to determine whether an area is "underserved by other depository institutions."

The rule change is effective 30 days after publication in the Federal Register.

Post-merger net worth combines retained earnings

The NCUA Board approved a final rule revising Part 702 to expand the definition of "net worth" for natural person credit unions for Prompt Corrective Action purposes, and revising Part 704 to similarly expand the definition of corporate credit union capital.

The final rule implements a statutory amendment expanding the definition of "net worth." It provides for an acquiring credit union, in a natural person credit union merger, to include the merging credit union's retained earnings with its own when determining post-merger "net worth." When merging corporate credit unions, the final rule similarly redefines corporate credit union "capital" to allow an acquiring credit union to include retained earnings of the merging credit union to determine post-merger capital.

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Date: Friday, December 5, 2008
Who: Vice Chairman Rodney E. Hood
Event: CUNA YES Summit
Location: Tampa, FL
Contact: Sally Thompson at
sridgely@ncua.gov

Date: Wednesday December 10, 2008
Who: Board Member Gigi Hyland
Event: CUES Director's Conference
Location: Palm Springs, CA
Contact: Jessica Vogel at
jvogel@ncua.gov or (703) 518-6318

Vice Chairman presents charter to Realtors

Vice Chairman Rodney Hood personally presented the National Association of Realtors with a federal credit union charter in mid-November during the Association's annual meeting in Orlando, Fla.

Realtors Federal Credit Union (Realtors FCU), headquartered in Rockville, Maryland, is expected to open mid-year 2009. This will be the first Internet-based credit union to serve the members of a single nationwide association without branch offices. Realtors FCU plans for a U.S. call center operation that will handle loan applications and account transactions on a 24/7 basis. The credit union will serve members and employees of the National Association of Realtors (NAR)—America's largest trade association, representing 1.2 million members.

Orlando, Fla., November 10, 2008—NCUA Vice Chairman Rodney Hood presents REALTORS® Federal Credit Union with its charter during a meeting of the National Association of REALTORS® Board. From the left are Dick Gaylord, 2008 President of the National Association of REALTORS®; Dale Stinton, CEO of the National Association of REALTORS® CEO and a member of the new credit union's Board; and Vice Chairman Hood.

"I was pleased to present this charter to the Realtors, not only because of the excellent work they do in fostering homeownership across the Nation, but also because of the extension of credit union service to the members of their Association. Consumers always benefit from greater choices, whether it be in real estate transactions or financial services, and I am proud that NCUA could work with NAR to make this happen," Vice Chairman Hood stated.

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NCUSIF status report

Through October 31, 2008, National Credit Union Share Insurance Fund (NCUSIF) gross income was $243.7 million, operating expense was $67.4 million, insurance loss expense was $176.5 million, and net income was a negative $200,000, primarily the result of insurance loss expense.

Fifteen federally insured credit unions failed through October 2008. Thirteen were involuntary liquidations and two were assisted mergers. The number of problem code 4 and 5 credit unions has risen from 211 at year-end 2007 to 246. These institutions represent 2.37 percent of total insured shares. Sixty-three percent of these problem code credit unions have less than $10 million in shares.

NCUSIF insurance loss expense totaled $176.5 million through October 31, 2008, and $268.8 million has been charged to reserves during the year. The provision for CU losses (reserve) account totaled $163.9 million on October 31, with $39.3 million expensed during October to accommodate the need to increase reserves.

The NCUSIF equity ratio declined from 1.28 to 1.27 percent during October, a result of higher than anticipated insurance loss expense. The equity ratio is expected to end the year at 1.27 percent based on estimated 6.85 percent annual insured share growth.

Board votes are unanimous unless otherwise indicated

FUNDING AVAILABLE

Community Development Financial Institutions
Native American CDFI Assistance Program

Funding is available for entities primarily serving a Native American Community.

Application Period: Open until December 19, 2008

Maximum Award: $500,000 Financial Assistance
$150,000 Technical Assistance

Visit the website for program guidance and application:

http://www.cdfifund.gov/what_we_do/programs_id.asp?programID=3

Comments sought on proposed appraisal and evaluation guidance

The federal bank, thrift and credit union regulatory agencies jointly issued for comment, November 13, 2008, proposed Interagency Appraisal and Evaluation Guidelines that reaffirm supervisory expectations for sound real estate appraisal and evaluation practices.

The proposed guidance builds on the existing federal regulatory framework to clarify risk management principles and internal controls for ensuring that financial institutions' real estate collateral valuations (both appraisals and evaluations) are reliable and support their real estate-related transactions. The initiative is intended to respond to heightened concerns over appraisals and credit quality.

The proposed guidance would replace the 1994 Interagency Appraisal and Evaluation Guidelines and incorporate recent supervisory issuances and reflect changes in industry practice, uniform appraisal standards and available technologies. As with prior issuances, the proposed guidance would apply to all real estate lending functions within a federal financial institution, including commercial and residential lending departments, capital market groups, and asset securitization and sales units.

Volatility within certain real estate markets and associated credit risk underscore the importance of independent and reliable collateral valuations. There is an expanded discussion of portfolio management techniques and under what circumstances an institution should update or replace a collateral valuation for an existing real estate transaction.

The proposed revisions address:

- Additional detail on the agencies' expectations for an independent appraisal and evaluation function.
- Greater explanation of agencies' minimum appraisal standards, including clarification of requirements for appraisals of residential tract developments.
- Revisions to the Uniform Standards of Professional Appraisal Practice, which are incorporated by reference in agencies' appraisal regulations.
- Risk-focused appraisal and evaluation reviews separate and apart from an institution's compliance function.
- New appendices—Appendix A provides further clarification on real estate transactions that are exempt from the agencies' appraisal regulations; Appendix B addresses acceptable evaluation alternatives and use of automated valuation models; and Appendix C contains a new glossary of terms.

Comments are requested on all aspects of the proposed guidance. Comments are due 60 days after publication in the Federal Register. A copy of the proposed guidance is available online at http://www.ncua.gov/RegulationsOpinionsLaws/proposed_regs/proposed_regs.html.

Hyland discusses CU issues during podcast

Board Member Gigi Hyland participated in a podcast in late October concerning current issues facing the credit union system. The podcast was hosted by Information Security Media Group Corp.

"Podcast technology is a great way to reach out to a wider segment of the credit union system and the public," noted Board Member Hyland. "It affords credit unions the chance to hear real-time information on current issues."

During her remarks, Board Member Hyland discussed the state of the nation's credit unions, answered questions regarding increased share insurance coverage and addressed some of the anticipated challenges for credit unions in 2009.

"Credit unions are well-positioned to weather the current financial crisis with 11.04 percent capital. That said, some credit unions are seeing delinquency increases and return on asset (ROA) contraction. Credit unions need to continue to focus on vendor due diligence and allowance for loan loss funding. They also should underscore the safety of member shares that are federally insured up to $250,000," stated Board Member Hyland.

The podcast is available online at http://www.cuinfosecurity.com/podcasts.php?podcastID=149.

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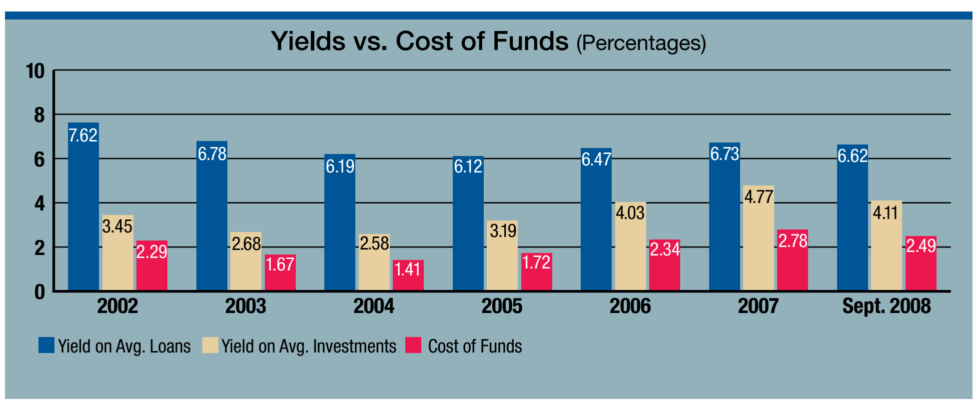
the first nine months of 2008. The return on average assets ratio declined from 0.64 percent to 0.51 percent, primarily due to increased funds set aside for loan and lease losses.

Details of third quarter 2008 data are available in a Consolidated Balance Sheet and a September 2008 Facts Summary posted online at http://www.ncua.gov/data/FOIA/foia.html.



NCUA HISTORY AND FUTURE

NCUA Board created November 1978

The National Credit Union Administration three member Board was created November 10, 1978, 70 years after Saint Mary's Bank opened its doors November 24, 1908, as the nation's first credit union.

The Federal Credit Union Act was signed into law in 1934 establishing a system of federal credit unions and NCUA's predecessor, the Bureau of Federal Credit Unions. NCUA became an independent agency in 1970, and in 1978 the Financial Institutions Regulatory and Interest Rate Control Act contained a provision establishing a three-member NCUA Board, thereby replacing the Administrator as NCUA's governing body and abolishing the seven-member NCUA Advisory Board.

Additional provisions provided that the President appoints members to the NCUA Board, with advice and consent of the Senate, and designates the Chairman. Also, not more than two members of the Board are from the same political party. It established six-year Board terms and addressed any exceptions. Authority was given to the Board to "adopt such rules as its sees fit for the transaction of its business." The Chairman was granted authority to be the spokesman for the board as well as the authority to "determine each Board member's area of responsibility."

The first board consisted of Chairman Lawrence Connell, Vice Chairman P.A. Mack Jr., and Board Member Dr. Harold A. Black. Connell served as Chairman from 1979-1981

Innovation enhances NCUA Board communications

Today's NCUA Board includes Vice Chairman Rodney Hood, Chairman Michael Fryzel, and Board Member Gigi Hyland.

The initial NCUA Board included Board Member Dr. Harold A. Black, Chairman Larry Connell, and Vice Chairman P.A. Mack Jr.

after serving two years as NCUA Administrator. Mack was initially appointed for four years, 1979-1983, and was reappointed in 1983 to a full six-year term. Black was appointed and served two years from 1979-1981.

During the first Board's years of service, persistent inflation and high interest rates forced financial institution reform. Congress provided legislation grating federal credit unions the power to write first mortgages, the Central Liquidity Facility was formed, and Federal Insurance protection increased to $100,000.

Since creation of the NCUA Board in 1978, new video and presentation technology paired with the Internet have opened lines of communication and created a platform for more transparency across all government agencies. Using technology, NCUA Board members communicate with staff as well as credit unions and the public in new, innovative ways.

The NCUA Central Office Board room now not only provides a meeting space for monthly Board meetings, it is also equipped with state-of-the-art communication technology. With NCUA employees spread across 50 states, audio and visual technology in the Board Room is often used for remote teleconferences between regional offices and the central office.

The Board used available technology and the Internet to disseminate important information to credit unions and credit union media repeatedly this fall. In order to reach a national audience as quickly as possible, Chairman Fryzel posted several video messages on the NCUA website. Video technology gives the Chairman the opportunity to quickly deliver important messages without leaving NCUA headquarters.

In October, amidst changes to federal share insurance regulation, Board Member Hyland hosted the Share Insurance 101 webinar from the NCUA Board Room to a live, nationwide audience of over 3,000. Participants were able to submit and answer questions during the live webcast and anyone can now access the archived webinar on the NCUA website.

The Board is also able to use this technology to reach audiences they may have missed before and save travel costs. Recently, Vice Chairman Hood was unable to attend a conference, so he pre-recorded a message that was shown to conference attendees. In the past, his remarks would not have reached the audience, and NCUA would have missed an opportunity to communicate with the credit union community.

Imagination powers the future, and NCUA looks forward to new innovations that will help the Board communicate with the public and credit unions in even better ways over the next 75 years!

BE ALERT! Fraud scams evolve

As Americans continue to weather the financial crisis, scammer tactics evolve.

"Over the past eight months, the FBI, working with Eastern European authorities, has been instrumental in the arrest of nearly 100 individuals involved in financial scams affecting the United States," said NCUA Federal Criminal Investigator David Eno. "However, this does not mean consumers can let their guard down, scammers are adding new tricks to old methods."

After the first round of arrests in Romania and three U.S. cities earlier this year, phishing complaints to NCUA temporarily dropped nearly 90 percent.

Today, scammers clone financial web pages and use them for phishing. NCUA's Internet homepage and individual credit union and bank homepages are repeatedly cloned. Scammers send credit union members a fraudulent email leading them to believe it's from NCUA or a particular credit union.

The misleading e-mail informs a member their account has been fraudulently accessed and prompts them to call an 800 or 866 number or follow the link provided to a cloned agency or credit union website. At the cloned webpage, the member is prompted to submit private financial information such as their account number and PIN. With receipt of account information, the scammer proceeds to empty the member's account from foreign ATM machines.

Within NCUA's Office of General Counsel, Associate General Counsel John Ianno and Trial Attorneys Jon Canerday and Jerry Poliquin and Investigator Eno have been battling scammers for over three years.

An increasingly common scam involves text messaging. Credit union members receive a fraudulent NCUA text message announcing that unauthorized activity has occurred in their account. As with phishing emails, an 800 telephone number is provided. When the member calls, they are prompted to provide their account number and PIN to resolve an alleged account problem. Like fraudulent emails, the scammer then transfers the member's funds into a foreign ATM accessible account.

Geographical targeting is another method scammers use to enhance their efforts to obtain member trust and their account information. Scammers send emails and text messages to individuals within a 30-40 mile radius of a targeted credit union making the scam seem quite credible.

Scammers are also copying cashier checks issued by legitimate credit unions. They obtain an actual cashier's check, photocopy it and print duplicates. The unsuspecting consumer who accepts an invalid check and deposits it soon discovers the check has bounced and loses whatever goods or services rendered for the check.

Credit union members should be reminded that NCUA and credit unions do NOT ask for personal account information and PIN numbers via the Internet or telephone. Consumers should be leery if placed in this situation.

Suspected scam victims, or those with questions regarding financial scams, can access additional information on NCUA's homepage www.ncua.gov or contact NCUA's toll-free Fraud Hotline at 1-800-827-9650. To aid NCUA and FBI investigations, forward suspected fraudulent information to Phishing@ncua.gov.

NCUA recommends deleting fraudulent e-mails or text messages received to prevent "spyware" and "malware" from compromising computers and cellular phones.

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